MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

DAU5014 – AUDITING 1

(All sections / Groups)

29 FEBRUARY 2020
9.00 am – 12.00 pm
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **6** pages with **4** Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

PART A

i)

Accountants and auditors both play a significant role either in the general preparation and examination of a corporation's business and/or individual's financial records.

Required:

Distinguish between the roles of accountants and auditors. (6 marks)

ii) Describe the agency theory by explaining the term below.

- Agents (1 mark)
- Principles (1 mark)
- Stewardship accounting (2 marks)
- Information asymmetry (2 marks)

iii) Provide any **TWO (2)** advantages of an audit. (2 marks)

PART B

i) Describe any **THREE (3)** mandate and responsibilities of Malaysian Institute of Accountant (MIA). (3 marks)

ii)

	Situation
1	Shila, an approved company auditor of KLMG have an unsettled loan with Yoyo Company Berhad amounting RM30,000 since 2001. Shila's superior Andy, assigned her to audit Hoho Sdn Bhd, a subsidiary of Yoyo Company for financial statement ended 31 December 2018.

Continued...

2	The Minister of Finance is in the process of reviewing Juliana's application to become an approved company auditor and is satisfied that Juliana is of good character and competent to perform the duties of an auditor. After approval, her husband, Tim, had offered her to work as an auditor at his own company, Tim K Chemical Sdn. Bhd.
3	Hisham, an auditor of PWT has been assigned to audit PO Company. Prior to conducting the audit, Hisham realised that he actually bought PO Company's shares 10 years ago and sold it off 5 years before he joined the audit team.
4	Gina, a chartered accountant, has pending litigation case in court where she has been accused of stealing her former company's asset. Recently, she received an offer to become an auditor for Iskandar Shah Sdn. Bhd. company.

Required:

Based on each of the independent situations above, indicate whether the chartered accountant above is allowed or prohibited from acting or accepting an appointment as the auditor of the company. Briefly explain why. (8 marks)

[TOTAL 25 MARKS]

QUESTION 2

PART A

i)

In most cases, an audit consists of several steps or phases that are designed to ensure the most accurate, objective and reliable results. The process for a specific audit will depend on what type of audit is being performed, as well as what set of standards govern the auditor's work.

Required:

Identify the first **FIVE (5)** major phases of audit. (5 marks)

Continued...

ii)

An engagement letter formalises the arrangement reached between the auditor and the client.

Required:

Provide any **FOUR (4)** contents that should be included in the engagement letter.

(4 marks)

iii) Briefly explain any **TWO (2)** reasons why an auditor is able to obtain reasonable, but not absolute assurance that material misstatements have been detected. (4 marks)

iv) International Standard on Auditing (ISA) 240 distinguishes between two types of misstatements: errors and fraud. Differentiate between errors and fraud.

(2 marks)

PART B

i)

When an auditor is not able to issue an unqualified audit report due to certain circumstances, the auditor may issue other types of audit report.

Required:

Identify and explain the other **THREE (3)** types of audit report that the auditor may issue if the auditor is unable to issue an unqualified audit report. (9 marks)

ii) Define the term materiality. (1 mark)

[TOTAL 25 MARKS]

Continued...

QUESTION 3

PART A

i)

A company's internal control extends beyond those matters that relate directly to the functions of the accounting system and it consists of 5 components.

Required:

List **FIVE (5)** components of internal control. (5 marks)

ii)

The effectiveness of any internal control system is subject to certain inherent limitations.

Required:

Identify and explain the **THREE (3)** limitations of a company's internal control.

(6 marks)

iii)

Assessing control risk is the process of evaluating the effectiveness of a company's internal control in preventing or detecting material misstatements in financial statements. To assess control risk, one of the processes involves auditor performing test of controls.

Required:

Provide **FIVE (5)** audit procedures used by the auditor as a test of controls.

(5 marks)

Continued...

PART B

i) Define the term audit evidence. (2 marks)

ii) Provide any **TWO (2)** factors that should be considered by the auditor when assessing the reliability or validity of audit evidence. (2 marks)

iii) List any **FIVE (5)** examples of audit evidence. (5 marks)

[TOTAL 25 MARKS]

QUESTION 4

PART A

i) List any **FIVE (5)** factors that may indicate an increase in client's inherent risk. (5 marks)

ii) Provide any **FOUR (4)** financial indicators of going concern. (4 marks)

iii) Briefly explain what is audit risk. (2 marks)

PART B

i) Differentiate between internal audit and external audit functions in terms of:

- The purpose
- The line of reporting
- Matters being audited
- Internal and external auditor's relationship with the company (8 marks)

ii) List **FOUR (4)** types of audit that the internal auditor may involve in. (4 marks)

Continued...

iii)

The major issue for the external auditor is assessing the competence and objectivity of the internal auditors.

Required:

Briefly explain any **ONE (1)** important criteria for this assessment. (2 marks)

[TOTAL 25 MARKS]

End of Paper